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GALLAGHER & KENNEDY

P.A.

ATTORNEYS AT LAW

MICHAEL M. GRANT
DIRECT DIAL: (602) 530-8291
E-MAIL: MMG@GKNET.COM

0000140642

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AZ CORP COMMISSION
DOCKET CONTROL

2575 EAST CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
PHONE: (602) 530-8000
FAX: (602) 530-8500
WWW.GKNET.COM

November 29, 2012

HAND DELIVERED

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Re: *AEPCO's Corrections to Staff's Draft 3—November 21, 2012 Assessment of the 2012 Integrated Resource Plans ("Draft 3"); Docket No. E-00000A-11-0113*

Dear Sir or Madam:

Enclosed are the original and 13 copies of AEPCO's Corrections to Staff's Draft 3. AEPCO requests that Staff make the factual changes noted and revise its recommendation to Commission acknowledgement of AEPCO's 2012 IRP.

Your assistance in relation to this matter is appreciated.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By: Michael M. Grant

Michael M. Grant

MMG/plp
10421-42/3192237
Enclosure
cc w/enclosure (delivered):

Steve Olea, Utilities Division
Elijah Abinah, Utilities Division
Terri Ford, Utilities Division
Richard Lloyd, Utilities Division
Barbara Keene, Utilities Division
Maureen Scott, Legal Division
Scott Hesla, Legal Division

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Original and 13 copies filed with Docket Control this 29th day of November, 2012.

AEPCO's Corrections to Staff's Draft 3—November 21, 2012

Assessment of the 2012 Integrated Resource Plans of the Arizona Electric Utilities

At page 4, second paragraph, the approximate total capacity of AEPCO's Apache generating station is 555 megawatts, not 350 megawatts.

At page 5 continuing to page 6 of Draft 3, the statements that each IRP must meet the Renewable, Distributed Renewable Energy and Energy Efficiency percentage requirements as stated on pages 5 and 6 are not correct as to AEPCO. The Commission REST Rules exempt AEPCO completely (and distribution cooperatives with annually-approved plans) from their overall, as well as their distributed renewable requirements.[1] The Commission's Electric Energy Efficiency Rules also exclude AEPCO from their requirements.[2]

At page 22, final paragraph, the third sentence should be revised as follows: "According to AEPCo, pursuant to contracts most recently approved by the Commission in Decision No. 72055 (January 6, 2011), its only responsibility to the partial-requirements members is to provide the capacity and associated energy from existing resources that are allocated to these members."

Also at page 22, the final sentence that AEPCO is assisting its partial-requirements members in <u>attaining</u> new resources is not correct and should be stricken. To clarify, commencing this summer under a separate agreement with its PRMs pursuant to Section 3.1.1 of

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[1] R14-2-1801.A and R14-2-1814.
[2] R14-2-2401.2.

the approved PRM Agreements, AEPCO is assisting its PRMs in studying the feasibility of potential future resources. No procurement assistance is involved.

At page 27, third paragraph, the statement, "AEPCo developed individual load forecasts for its three all-requirements members," is not complete. It should read: "AEPCo developed individual load forecasts for all six of its member distribution cooperatives, using econometric methods based on population growth, economic activity, energy prices, income levels, weather and demographics. The results of the forecasts were used as stated in Exhibit C to the IRP." (Attached hereto.)

At page 31, first paragraph, the statements that "AEPCo has not provided a forecast encompassing all of the AEPCo distribution cooperatives [and]...The information presented includes only AEPCo's all-requirements members" are incorrect. The correct statement is: "AEPCo's forecasts encompass all six of the AEPCo member distribution cooperatives." Specifically in that regard, as to partial-requirements members Mohave Electric Cooperative, Sulphur Springs Valley Electric Cooperative and Trico Electric Cooperative, "the load forecast used in the model is equal to the lesser of either the [AEPCO] maximum base capacity available to each member or their load forecast for that hour."[3]

At page 36, the initial full sentence, "AEPCo did not consider EE programs in the development of its 2012 IRP," is not accurate. The effects of any EE programs which have been offered and deployed by its member distribution cooperatives to their retail customers are reflected in each member's forecasts which were used by AEPCO in developing its 2012 IRP.

[3] Exhibit C to AEPCO's IRP. *See also* attached September 5, 2012 Supplemental Statement, p. 2.

The first phrase of the final paragraph at the bottom of page 37 is also incorrect for the reasons stated in the previous comment concerning the initial full sentence at page 36.

At page 38, regarding the second sentence of the first paragraph, a more complete and accurate statement is: "AEPCo only considered short-term power as a supply-side option due to the fact that its forecast indicated no need for any new generating resources in light of insignificant load growth."

At page 40, the statement that "AEPCo did not consider the addition of new generating facilities" is more accurate and complete if it reads: "AEPCo did not consider the addition of new generating facilities, because its forecasts indicated no need for <u>any</u> new generating resource over the 15-year forecast horizon of its IRP."

At page 42, under the Distributed Renewable Options Considered chart, the statement "AEPCo does not discuss distributed renewable generation in its IRP" is more accurate and complete if it also states ", because AEPCo has no need for any new generation resource—renewable or conventional—over the IRP's forecast horizon and under Commission Rules is not involved in determining distributed renewable programs at the retail level. That function is reserved to its members and the Commission by R14-2-1814."

Also at page 42, under Basic Assumptions, AEPCO did not supply those assumptions, because they are generally associated with new resources and AEPCO's IRP showed no need for new resources over the planning horizon.

At page 44, first paragraph, the statement that "AEPCo did not provide a forecast of natural gas prices in its IRP" is not correct. The monthly natural gas price forecast for 2012-2026 used in PROMOD was included in the PROMOD Assumptions Document in response to Section D-2 and is included in Tab C of AEPCO's IRP. Also, at page 45, while it is correct that AEPCO did not include a specific CO2 tax projection, the IRP did state in Section D-1.h that AEPCO continues to "monitor proposed Carbon Legislation and will make adjustments to AEPCo's current resource plan as required."

At page 50(4), the following sentence should be added: "AEPCo only considered short-term market purchases, because its forecasts indicated no need for any new generating resource."

At page 59, under "Review of IRPs for Environmental Impact Requirements," AEPCO would request Staff add the following to the statements under the subheading "b) AEPCo": "As indicated in its IRP, AEPCo did supply additional information concerning potential EPA regulatory actions that could impact its Apache Station on October 22, 2012 as a compliance item in relation to Decision No. 72055 in Docket No. E-01773A-09-0472."

At page 68, the following statement should be added at the end of the first paragraph: "AEPCo filed the study with the Commission on October 22, 2012 in Docket No. E-01773A-09-0472." Similarly, at page 69, the fourth bullet point should read: "AEPCo's environmental study was filed with the Commission on October 22, 2012 in Docket No. E-01773A-09-0472."

At page 75, as previously explained, the statement that the "AEPCo IRP only considers the capacity needs of two of the AEPCo distribution cooperatives—Duncan Valley and Graham County" is incorrect. *See* page 1, Exhibit C of the IRP under the Load Forecast description for the explanation of how load forecasts were considered for <u>all six</u> of AEPCO's distribution cooperatives. The relevant Load Forecast page from Exhibit C to AEPCO's IRP which substantiates that explanation is attached hereto.

At page 90 (the final two paragraphs), once again, the statement that the "IRP only considers the needs of the two AEPCo distribution cooperatives located in Arizona that are all-requirements members of AEPCo" is incorrect. Attached are the Load Forecast page from Exhibit C to the March 30, 2012 IRP and AEPCO's Supplemental Statement to its Resource Planning Filing which was made in this docket on September 5, 2012. Both confirm that AEPCO's forecasts of future loads, as well as the resource planning it undertook in this IRP for those loads, take into account its power supply responsibilities to all <u>six</u> of its distribution cooperatives. The Commission most recently approved the All- and Partial-Requirements Agreements which define those power supply responsibilities in Decision No. 72055, Findings 63 to 68, 79 and the first full Ordering Paragraph at page 17 (January 6, 2011). As to future power needs, the Commission-approved PRM Agreements between AEPCO and MEC, SSVEC and Trico state specifically at Section 3.1.1 that each PRM, and <u>not</u> AEPCO, is responsible "for bulk power supply planning" and "any Future Resource procurement," i.e., to meet any growth needs of the PRM system above the fixed capacity it is entitled to from AEPCO.

Also at page 90, the final two paragraphs, AEPCO has six, not seven, distribution cooperative members. Further, the statement "AEPCo's IRP addresses the load growth of only two membership cooperatives" is not correct. Again, as stated in the IRP and explained in the attached Supplemental Statement, AEPCO's IRP addresses each of the three ARMs' current, as well as their future anticipated, power and energy needs. As to the final sentence of the last paragraph on page 90, the reference to "the remaining five distribution cooperatives" is incorrect. The sentence should read: "The IRP considers the existing and load growth needs of the three ARM distribution cooperatives and the lesser of either the maximum base capacity available to each PRM or their load forecast for that hour based on the 2011 TRS."[4]

The first two sentences of the first paragraph at page 91 are incorrect. AEPCO cannot select a "portfolio of resources based upon...consideration of a wide range of...demand-side options," because Commission Rules R14-2-2401, *et seq.,* reserve that selection process to the Commission based upon its review of filings made by AEPCO's five Arizona member distribution cooperatives. By Commission Rule, AEPCO plays no part in that process. For a similar reason, the final sentence of the first paragraph at page 91 is wrong because, by Commission Rule R14-2-1814.A, there expressly is no annual renewable energy requirement or distributed renewable energy requirement for either AEPCO or its member distribution cooperatives, assuming the distribution cooperatives receive annual Commission approvals for their plans—which is and has been the case. Thus, the Annual Renewable Energy Requirement and the Distributed Renewable Energy Requirement specifically do not apply to AEPCO's IRP or its member distribution cooperatives.

[4] Attached Supplemental Statement and Exhibit C, p. 2 to the AEPCO IRP.

At page 91, taking into account these corrections to Draft 3, the final paragraph should be revised to read: "We recommend that the Commission acknowledge the 2012 IRP filed by AEPCo."

Load Forecast

All Requirements Member Loads

For All Requirements Members, the load forecast is from the 2011 Transmission Requirements Study (TRS) forecast of non-coincidental peak demand and energy requirements, medium economic scenario approved by the Board in October, 2011 and submitted to RUS for approval in November, 2011. This applies to Anza Electric Cooperative (AEC), Duncan Valley Electric Cooperative (DVEC) and Graham County Electric Cooperative (GCEC).

Partial Requirements Member Loads

For Mohave Electric Cooperative (MEC), Sulphur Springs Valley Electric Cooperative (SSVEC) and Trico Electric Cooperative (TEC), the load forecast used in the model is equal to the lesser of either the maximum base capacity available to each member or their load forecast for that hour based on the 2011 TRS for all hours of the forecast.

Note that this is but one method of predicting what MEC, SSVEC TEC's load forecasts could be for AEPCO under Partial Requirements. The Partial Requirements Members may or may not agree with the results or methodology AEPCO is using for its planning.

AEPCO's Other Firm & Contingent Loads

AEPCO has an 8MW contract with Electrical District #2 (ED-2) that ends 12/31/2012. For purposes of this forecast, ED-2's actual hourly take from January-July of 2011 was used as the forecast for January through July 2012 (repeating the take from 02/28/2011 for 02/29/2012). The forecast for August-December of 2012 matches ED-2's hourly take for that time period from 2010 actuals.

AEPCO's Existing Generating Units

Apache Station

AEPCO's existing generating units all reside at Apache Station in the Sulphur Springs Valley in southeast Arizona. The intended use of all units is to be dispatched economically against the WECC wide market. Apache CC-1, GT-2 and GT-3 are assumed out of service at the end of their current Class A Member contract end dates.

Unit operating characteristics used for modeling purposes are shown on the following page.

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF RESOURCE PLANNING AND PROCUREMENT IN 2011 AND 2012.

Docket No. E-00000A-11-0113

AEPCO'S SUPPLEMENTAL STATEMENT TO ITS RESOURCE PLANNING FILING

Following discussions with the Utilities Division Staff and its consultants, AEPCO files this Supplemental Statement to the Resource Planning Filing, R14-2-703.C-F and H, which it submitted on March 30, 2012 (the "Resource Planning Filing"). Its purpose is to clarify the scope of the forecasting and Resource Planning activities which were conducted by AEPCO in relation to (1) its ongoing power supply responsibilities to all of its six Class A member distribution cooperatives and (2) the Resource Planning Filing made with the Commission. Briefly to summarize, AEPCO's forecasts of future loads, as well as the resource planning it undertakes to meet those loads, take into account its power supply responsibilities to all six of its member distribution cooperatives.

On an ongoing basis, AEPCO has two types of power supply responsibilities. The first is to its three all-requirements members ("ARMs"), i.e., Graham County Electric ("GCEC") and Duncan Valley Electric ("DVEC") which are located in Arizona and Anza Electric ("Anza") which is located in south-central California. AEPCO must plan for and meet each of those ARMs' current, as well as their future anticipated, power and energy needs.

AEPCO's second type of power supply responsibility is to its partial-requirements members ("PRMs"): Mohave Electric, Trico Electric and Sulphur Springs Valley Electric. In their cases, AEPCO's responsibility is only to make available to each PRM the maximum base capacity (sometimes referred to as the PRM's Allocated Capacity or "AC") which the PRM is entitled to from AEPCO's existing resources under the PRM Power Supply and Capacity Agreements which have been approved by the Commission. AEPCO has no responsibility to its PRMs to plan for or supply any additional power and energy above the PRM's AC which the PRM may need in the future to meet its members' retail demands.

The forecasting and analysis performed by AEPCO and included in AEPCO's Resource Planning Filing took into account both of these power supply responsibilities to the ARMs and PRMs. That's stated in the Base Case Assumptions for the Load Forecast (Exhibit C to the Resource Planning Filing) as follows:

> For All Requirements Members, the load forecast is from the 2011 Transmission Requirements Study (TRS) forecast of non-coincidental peak demand and energy requirements, medium economic scenario approved by the Board in October, 2011 and submitted to RUS for approval in November, 2011. This applies to Anza Electric Cooperative, Duncan Valley Electric Cooperative and Graham County Electric Cooperative.
>
> ***
>
> For Mohave Electric Cooperative (MEC), Sulphur Springs Valley Electric Cooperative (SSVEC) and Trico Electric Cooperative (TEC), the load forecast used in the Model is equal to the lesser of either the maximum base capacity available to each member or their load forecast for that hour based on the 2011 TRS for all hours of the forecast.

In relation to the information supplied in response to R14-2-703.C.1 in the Resource Planning Analysis, AEPCO stated that it has an obligation to provide resource planning on behalf of only two member cooperatives located in Arizona, i.e., DVEC and GCEC. While this is an accurate statement, it may have left the impression that AEPCO's forecasting and planning efforts in the Resource Planning Filing did not include or consider all of the power supply responsibilities AEPCO owes to its PRMs, as well as any future additional supply obligations it has to Anza. That is not the case and AEPCO trusts this Supplemental Statement has clarified any confusion on that issue.

RESPECTFULLY SUBMITTED this 5th day of September, 2012.

GALLAGHER & KENNEDY, P.A.

By Michael M. Grant

Michael M. Grant
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for Arizona Electric Power Cooperative, Inc.

Original and 13 copies filed this 5th day of September, 2012, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing delivered this 5th day of September, 2012, to:

Maureen Scott
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Steve Olea
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Terri Ford
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Candrea Allen
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing mailed
this 5th day of September, 2012, to:

Timothy M. Hogan
Arizona Center for Law
in the Public Interest
202 East McDowell Road, Suite 153
Phoenix, Arizona 85004

Jeff Schlegel
SWEEP Arizona Representative
1167 West Samalayuca Drive
Tucson, Arizona 85704-3224

David Berry
Western Resource Advocates
P.O. Box 1064
Scottsdale, Arizona 85252-1064

Greg Patterson
Munger Chadwick
2398 East Camelback Road, Suite 240
Phoenix, Arizona 85016

Douglas V. Fant
Law Offices of Douglas V. Fant
Suite A-109, PMB 411
3655 West Anthem Way
Anthem, Arizona 85086

Amanda Ormond
Southwest Representative
Interwest Energy Alliance
Suite 103-282
7650 South McClintock Drive
Tempe, Arizona 85284

Scott S. Wakefield
Ridenour, Hienton & Lewis, P.L.L.C.
201 North Central Avenue, Suite 3300
Phoenix, Arizona 85004-1052

Andrew Wang
Josh Fields
Chris Costanzo
SolarReserve, LLC
2425 Olympic Boulevard, Suite 500 East
Santa Monica, California 90404

10421-42/3132760